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State Auditor Vaudt Reviews Governor's Fiscal Year 2008 Budget

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and in his duty to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has completed his review of Governor Culver’s proposed Fiscal Year 2008 budget. Some of his findings include—

Some Steps in the Right Direction

Auditor Vaudt noted Governor Culver’s Fiscal Year 2008 budget proposal takes some positive steps by—

- funding a portion of the Fiscal Year 2008 property tax credits from Fiscal Year 2008 estimated revenues
- applying the proper expenditure limitation to the proposed cigarette and tobacco tax increase
- moving all Governor’s staff costs into the Governor’s office budget

While Auditor Vaudt complimented the Governor for taking these steps, he noted several significant concerns about the Governor’s proposed budget.

Need for Sound Fiscal Practices

“Under Governor Culver’s Fiscal Year 2008 budget proposal ‘true total expenditures’ grow at the rate of almost 10% above Fiscal Year 2007 levels,” stated Auditor Vaudt. Even with the proposed cigarette tax increase, the growth in spending outpaces the growth in revenues by a significant margin.

Auditor Vaudt stressed, “The key to responsible budgeting is to keep expenditures in line with revenues.” Governor Culver has pledged, “Simply put, we can’t spend more than we take in.” Yet, even with the Governor’s proposed tax and revenue increases of almost \$180 million, this budget proposal will result in spending nearly \$300 million more than we take in. The proposed budget accomplishes this by shifting over \$400 million of Fiscal Year 2008 General Fund costs to other funds and special accounts.

Senior Living Trust Fund

Governor Culver stated increasing the cigarette and tobacco tax will enable Iowa to “Keep our commitment to fund the Senior Living Trust, which allows more Iowans to remain in an independent living setting for a longer period of time.” By law, the Senior Living Trust Fund (SLTF) is to be repaid \$300 million for a portion of the General Fund costs that have been shifted to the SLTF over the last several years. The Governor’s proposed budget reflects that \$197 million of cumulative repayments will have been made to the SLTF as of the beginning of Fiscal Year 2008, leaving a balance due of \$103 million. The rest of the story is \$260 million of General Fund costs were shifted to the SLTF during that same period the repayments were being made, and that money does not have to be repaid under current law. Auditor Vaudt remarked, “It’s hard to replenish the SLTF when the amount being taken out is more than the amount being repaid.”



**Auditor of State
David A. Vaudt**

**Comments on
Governor Culver's & Lt. Governor Judge's
Fiscal Year 2008 Proposed Budget**

February 22, 2007

Press Briefing

State of Iowa FY08 General Fund Budget

Remarks today will focus on these areas:

- Some steps in the right direction
- The numbers - what's really happening
- Concerns
 - Year-to-year Spending Increases
 - Expenditure Shifts, Spending Gap, & Revenue Increase
 - Senior Living Trust Fund

State of Iowa FY08 General Fund Budget

Some steps in the right direction:

- Appropriates \$40 million of \$160 million in FY08 property tax credits from FY08 General Fund revenues
- Appropriately applies the 95% spending limit on projected cigarette and tobacco tax revenue increase
- Reflects all Governor's staff costs in the budget for the Governor's Office

State of Iowa
FY08 General Fund Budget
(\$ in Millions)

As presented by the Governor:

Revenues	\$ 5,930.8
Expenditures	<u>5,754.4</u>
Budgeted surplus	<u>\$ 176.4</u>
Surplus as a % of revenues	<u>3.0%</u>

State of Iowa
FY08 General Fund Budget
(\$ in Millions)

As adjusted for all resources:

Total revenues	\$6,015.3
"True total expenditures"	<u>6,301.2</u>
Gap - spending in excess of revenues	<u><u>\$(285.9)</u></u> ⁽¹⁾
Spending gap as % of total revenues	<u><u>(4.8%)</u></u>

(1) Does not consider 99% expenditure limitation

**State of Iowa
FY08 General Fund Budget
Revenues Reconciliation
(\$ in Millions)**

As presented by the Governor	\$5,930.8
IowaCare Account	67.5
Judicial fees	<u>17.0</u>
Total revenues	<u><u>\$6,015.3</u></u>

State of Iowa
FY08 General Fund Budget
Expenditures Reconciliation
(\$ in Millions)

As presented by the Governor	\$5,754.4
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Additional expenditures:

- | | |
|---|--------------|
| ■ <u>Non-General Fund resources</u> - | |
| Expenditures shifted to other resources | 404.8 |
| ■ <u>Under-funded costs</u> - salary adjustment | |
| not included, plus likely supplemental | <u>142.0</u> |

"True total expenditures"	<u><u>\$6,301.2</u></u>
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**State of Iowa
FY08 General Fund Budget
Additional Expenditures
(\$ in Millions)**

Non-General Fund resources:

Expenditures shifted to:

FY07 Surplus - Senior Living Trust Fund [Property tax credits (\$119.9), Iowa Power Fund (\$25.0)]	\$ 144.9
Tobacco Related Funds [Medicaid (\$39.4), Substance abuse (\$13.8), Watershed protection (\$5.0)]	58.2
Senior Living Trust Fund [Medicaid]	74.1
IowaCare Account [Medicaid]	63.2
Rebuild Iowa Infrastructure Fund [Debt service (\$10.3), Water quality (\$12.6), targeted industries infrastructure (\$10.6), other (\$4.0)]	37.5
Environment First Fund [Soil conservation (\$7.9), park operations (\$2.0)]	9.9
Judicial Fees [Judicial branch (\$14.0), Indigent defense (\$3.0)]	<u>17.0</u>
	<u><u>\$ 404.8</u></u>

State of Iowa
FY08 General Fund Budget
Additional Expenditures, Continued
(\$ in Millions)

Under-funded costs:

Salary adjustment	\$112.1
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Likely supplemental:

Medicaid	25.3
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State Appeal Board	<u>4.6</u>
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\$142.0

State of Iowa
FY08 Spending Increase
(\$ in Millions)

FY07 Current Estimate:

Enacted budget	\$5,296.5
Shifted expenditures	392.7
Proposed supplemental	<u>55.1</u>
Estimated "true total expenditures"	<u><u>\$5,744.3</u></u>

FY08:

Estimated "true total expenditures"	<u><u>\$6,301.2</u></u>
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FY08 increase over FY07:

Amount	<u><u>\$ 556.9</u></u>
Percentage	<u><u>9.7%</u></u>

State of Iowa
FY08 General Fund Budget
Year-to-Year Spending Increases
(\$ in Millions)

	<u>Amount</u>	<u>Percentage</u>
FY05 vs. FY04	\$ 211.3	<u>4.4%</u>
FY06 vs. FY05	437.1	<u>8.8%</u>
FY07 vs. FY06	319.7	<u>5.9%</u>
FY08 vs. FY07	<u>556.9</u>	<u>9.7%</u>
Total Increase	<u>\$1,525.0</u>	<u>31.9%</u>
Average Increase	<u>\$ 381.3</u>	<u>8.0%</u>

FY04 - FY06 Actual, FY07 Estimate, FY08 Proposed Budget

State of Iowa
FY08 General Fund Budget
Year-to-Year Revenue Increases
(\$ in Millions)

	<u>Amount</u>	<u>Percentage</u>
FY05 vs. FY04	\$ 245.5	<u>5.2%</u>
FY06 vs. FY05	460.7	<u>9.3%</u>
FY07 vs. FY06	254.3	<u>4.7%</u>
FY08 vs. FY07	<u>371.3</u>	<u>6.6%</u>
Total Increase	<u>\$1,331.8</u>	<u>28.4%</u>
Average Increase	<u>\$ 333.0</u>	<u>7.1%</u>

FY04 - FY06 Actual, FY07 Estimate, FY08 Proposed Budget

State of Iowa

FY08 General Fund Budget

Expenditure Shifts, Spending Gap & Revenue Increase

(\$ in Millions)

	<u>FY07</u>	<u>FY08</u>
<u>Expenditure shifts:</u>		
Amount	<u>\$392.7</u>	<u>\$404.8</u>
<u>Spending gap:</u>		
Amount	<u>\$308.0(1)</u>	<u>\$285.9(1)</u>
<u>Revenue increase:</u>		
Amount	<u>\$430.3</u>	<u>\$587.8(2)</u>
Percentage	<u>8.6%</u>	<u>10.8%</u>

FY07 Budget, FY08 Proposed Budget

(1) Does not consider 99% expenditure limitation

(2) FY07 Estimate contains \$216.5 million more in revenues than FY07 Budget

State of Iowa

FY08 General Fund Budget

Revenue Growth Needed

(\$ in Millions)

FY08 revenue growth over FY07 estimate:
 [FY07 estimated revenue \$5,644.0]

REC estimate	\$ 184.2 ⁽¹⁾	3.3%
IowaCare Account & Judicial fees	7.9	.1
Proposed revenue adjustments	<u>179.2</u>	<u>3.2</u>
Total	<u>\$ 371.3</u>	<u>6.6%</u>
FY08 spending gap	<u>\$ 285.9</u>	<u>4.8%⁽²⁾</u>

6.6% revenue growth is significant; however, this budget proposal would actually need **12.7%** General Fund revenue growth to fund this level of spending (without shifting expenditures) and comply with the 99% spending limitation.

(1) FY07 Estimate contains \$216.5 million more in revenues than FY07 Budget

(2) Based upon FY08 revenues (5.1% based upon FY07 revenues)

State of Iowa

FY08 General Fund Budget

Senior Living Trust Fund (SLTF) Repayment

(\$ in Millions)

Amount required by law to be repaid (2006 HF 2002) \$300.0

Transfers from Medicaid appropriation:

FY05	\$ (6.9)
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FY06	(10.6)
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Repaid from FY06 surplus	(55.9)
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Budgeted repayment from FY07 appropriation	(25.0)
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Estimated repayment from FY07 surplus	<u>(98.4)</u>	<u>(196.8)</u>
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Estimated amount left to be repaid	<u><u>\$103.2</u></u>	
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State of Iowa
FY08 General Fund Budget
Senior Living Trust Fund (SLTF) Repayment
(\$ in Millions)

Medicaid costs shifted to SLTF:

FY06 actual	\$108.7
FY07 estimated	74.1
FY08 proposed budget	<u>74.1</u>
	256.9
Less repayments made	<u>196.8</u> (1)
Shifted costs <u>exceed</u> repayments	<u>\$ 60.1</u>

LSA statement about SLTF: "The balance could be depleted at the end of FY2008."

(1) SLTF estimated FY08 ending balance \$93 million (FY06 beginning balance \$153 million)